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MEMORANDUM

SUBJECT: Italy: Political Update

The leaders of the five parties that make up the Spadolini government are scheduled to meet next Monday to discuss the future of their coalition. A welter of pressing national problems notwithstanding, the central question will be whether the government is workable any longer. The appointment of Spadolini -- leader of the small Republican party -- a year ago grew out of a compromise between the two main governing parties -- the Christian Democrats and the Socialists -- neither of which wants the other to control the prime ministry. The two big parties have fought each other and Spadolini nearly every step of the way. There is more reason now than at any time in recent months to expect that good sense will govern Monday's proceedings and that the government will survive for a while longer, but the situation is at best unpredictable.

The outcome of the meeting is likely to turn in large part on the stance of Socialist party leader Craxi. Craxi, who has long coveted the prime ministry, has grown increasingly restless with the present governing arrangement.

Craxi's intermittent pushes for change appear to have been motivated by concern about whether and how long his party can maintain its momentum. If press reports are accurate, the Socialists' 4.5 % gain in the 6 June local elections -- in which about two percent of the electorate participated -- has convinced Craxi that time is on his side. Having seen pre-election predictions for his party borne out, Craxi will press his case vigorously at the coalition leaders' meeting, but at crucial moments we think he may prove more flexible than the general tenor of politics this spring might suggest.

The election returns may also move the Christian Democrats to look more favorably on compromise. A month ago newly elected party leader De Mita seemed ready to confront Craxi and reassert DC pre-eminence in the Coalition. Significant losses in the local polling have put a damper on this mood, however, and the results conform to electoral patterns suggesting still leaner days ahead for the DC. The local elections, in which the DC lost about two points in comparison to previous national and local elections, have almost certainly brought home to De Mita -- his feistiness notwithstanding -- that it will be some time before his party is ready to fight a national campaign.

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Despite his reputation for favoring a tough line toward the Socialists, we think his approach to the coalition leaders' meeting is likely to be pragmatic. [redacted]

There is, however, a limit to DeMita's willingness to be flexible. [redacted]

[redacted] A new parliamentary election might increase the number of Socialist and small party seats in the lower house, but in all likelihood it would not change the basic arithmetic of current coalition building. A government still would need the formal or informal backing of two of the three largest parties: the Christian Democrats, the Socialists, and the Communists. [redacted]

If it came to dealing with the PCI, we believe DeMita would move with great caution. To do otherwise would almost certainly cause his newly formed majority within the DC to founder; in addition it would add considerably to the growing difficulties confronting Communist Party leader Berlinguer. [redacted]

Outlook

Spadolini's chances of emerging from Monday's meeting with his government largely intact seem to have improved somewhat since the local elections. The improvement has been on the margins, however, and the prime minister's situation is still tenuous. Moreover, even if the coalition partners can agree upon a new government program, the friction between the Socialists and the DC that has haunted Spadolini will almost certainly continue. A miscalculation by either of these two parties could trigger an early national election that nearly all political leaders say they want to avoid. [redacted]

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